



CEO political preference and credits

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Received 15 June 2020; Accepted 22 June 2021; Published 29 June 2021

INTRODUCTION

Changes in political ideology are related to changes in credit rating. Our results support the behavior consistency, upper echelon, and social identity theories, as well as the risk acceptance hypothesis, and are robust to a number of alternative specifications as well as when alternate approaches and measures of credit risk are introduced. Using Republican CEOs as a proxy for conservative CEOs, our evidence implies that credit rating agencies justifiably view a CEO's political ideology and conservatism as indicative of corporate policies and, therefore, as an important determinant of the firm's credit ratings.

Drawing from three theories in the social sciences, prior research examines the relationship between a CEO's political ideology and his or her firm's corporate decisions. With this in mind, it's often assumed that a CEO's political preference reflects his or her personal value system, which successively influences other behaviours, including economic ones. Following this chain of logic, prior research shows that a CEO's political ideology influences his or her level of monetary conservatism, investment decisions.

The credit rating agencies assign a rating analyst to every rated corporate entity, who then oversees the continued dialogue with company management. The rating analyst considers both financial and non-financial qualitative information during discussions with management. Furthermore, prior research shows that the connection between executive political ideology and credit ratings is reflected at the country-level.

Moreover, credit rating agencies consider managerial conservatism, which reflects financial

risk, together of the foremost important factors when assessing a company's credit worthiness. These interactions with management provide the rating analysts with numerous verbal and non-verbal cues about managerial conservatism. Additionally, CEO's political contribution information is publicly available; thus, rating analysts may also use this information to determine managerial conservatism and corporate financial risk as a part of their credit rating assessment.

We plan to link three distinct sorts of conservatism to every other: personal conservatism, political conservatism, and economic/financial conservatism. An individual's personal ideology often reflects his or her political values; for example, a conservative individual tends to favour the core values of the Republican Party, such as fiscal responsibility and budget cuts. To form opinions, the agencies collect information a few firm's top level of management and assess how those managers minimize the firm's business and financial risks. If Republican managers are assumed to adopt and maintain more conservative corporate policies (e.g., engage in less risky investments), thus exposing their firms to less financial risk, we predict that firms with Republican CEOs are going to be related to lower credit risk.